



# JAMES CITY SERVICE AUTHORITY

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November 13, 2009

The Members of the Board of Supervisors and the Citizens of James City County:

We are pleased to submit to you the Comprehensive Annual Financial Report of James City County, Virginia (the County), for the fiscal year ended June 30, 2009, as required by the Code of Virginia. The Department of Financial and Management Services has prepared this report in accordance with accounting principles generally accepted in the United States of America (GAAP) and the standards of financial reporting prescribed by the Governmental Accounting Standards Board and the Auditor of Public Accounts of the Commonwealth of Virginia. Section 15.1-67 of the Code of Virginia (1950, as amended) requires the County to have an annual audit of the books of account, financial records, and the transactions of the County. Goodman & Company, L.L.P. was selected to perform the required audit. The unqualified report of Goodman & Company, L.L.P., the highest possible result of the audit process, accompanies the financial statements in this report.

Responsibility for both the accuracy of the presented data and the fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the various funds of the County; and that all disclosures necessary to enable the reader to gain maximum understanding of the County's financial activity have been included.

The County government is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996, as amended, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of federal awards, the schedule of findings and questioned costs, and the auditors' reports on internal control and compliance with applicable laws and regulations, are included in the compliance section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors on pages 3-13 of this report.

The Board of Directors has authorized water and sewer operations for the JCSA within the Primary Service Area (PSA) in the County. The JCSA also provides water and/or sewer service to limited sections of York County and the City of Williamsburg with the concurrence of the appropriate governing bodies.

The JCSA's water system includes the central water system with 10 water production facilities, and six independent water production facilities that are located outside the PSA. There are approximately 339 miles of water transmission and distribution lines throughout the entire system. The water system facilities supply approximately 5.0 million gallons of water per day to 19,085 water customers.

The JCSA's sewer system includes 76 pump stations with approximately 379 miles of sewer collection lines. The sewer system facilities collect and move approximately 5.3 million gallons of sewage per day for 18,702 sewer customers. The JCSA has no sewage treatment facilities. Sewage treatment for areas served by the JCSA, as well as for other Hampton Roads communities, is provided by the Hampton Roads Sanitation District (HRSD).

As of June 30, 2009, the JCSA had 91 full-time employees with the responsibility to operate and maintain its utility facilities and lines. The JCSA's operating funds are self-supporting and the JCSA receives no share of any local or property tax levies. The Board of Directors has the sole power to set water and sewer utility rates and related fees. The Board of Directors adopted an inverted-block or inclining rate structure in 1996 to be effective for fiscal year 1997 for residential customers which incorporates a unit charge that increases with increasing consumption. The primary objective of establishing the inverted-block rate structure was to discourage water consumption, particularly from large-volume residential customers. On July 1, 2008, the residential water consumption service charge was set at the first block for \$2.80 per 1,000 gallons for less than 15,000 gallons consumed per quarter, the second block was set at \$3.45 per 1,000 gallons for more than 15,000 gallons but less than 30,000 gallons consumed per quarter, and a third block was set at \$9.80 per 1,000 gallons for more than 30,000 gallons consumed per quarter. Commercial and industrial customers were set at a flat or uniform rate structure of \$3.45 per 1,000 gallons. The sewer service charge for all categories of customers was set at \$2.80 per 1,000 gallons.

### **Economic Condition and Outlook**

James City County has seen a slowdown in the economy during the current fiscal year, and growth is not expected to return to its previous pace over the next two years. The County is located near the cities of Hampton, Newport News, and Williamsburg, and the County of York. Major employers within commuting distance include Anheuser-Busch, Owens Brockway, Ball Metal, Newport News Shipbuilding, Langley Air Force Base, Fort Eustis, Fort Monroe, Colonial Williamsburg Foundation, and National Aeronautics and Space Administration. The County's population grew 38.0 percent from 1990 to 2000 while the state population has increased only 15.7 percent during the same time period.

### **Major Initiatives**

Economic conditions have temporarily slowed the JCSA's expansion; however, a historically fast-growing population and expanding commercial base enhances the economic outlook for the JCSA over the long term, an increased demand for its services is expected once the economic climate improves.

The JCSA currently has groundwater permits for its central system to withdraw 8.9 million gallons per day to support the residential and commercial customers. The JCSA entered into an agreement with Newport News to purchase 4.0-6.5 million gallons of water per day depending on drought conditions to meet the County's water needs through 2040. The first of two \$25 million payments for the purchase of the water was made on December 31, 2008. Water from Newport News is not dependent on the construction of the King William Reservoir which has been identified as a future water supply project for the Virginia Peninsula. The JCSA sponsored a \$25 million bond issue in the fall of 2008 to fund the first installment. The JCSA is also working on conversion of its water disinfection system from chlorine to chloramines to accommodate water from Newport News. Improvements to the Ironbound Road Water Storage Facility and Stonehouse Water Production facility are planned. In addition water distribution system upgrades are under design for Ironbound Road and College Creek.

Water conservation is an important component of meeting the future water needs. The JCSA has initiated the "Let's be Water Smart" program which is a partnership with local businesses involved in the landscape industry. The partnership promotes the importance of using water wisely. The JCSA is the only public water Utility in Virginia to offer rebates to residential customer for installing water conserving devices like rain barrels, washing machines, dishwashers, etc..

In FY05 the JCSA completed the first phase of a 5.0 million gallon per day (mgd) groundwater treatment facility which uses reverse osmosis technology to treat water from the Potomac Aquifer. The first phase of the project was capable of treating 2.5 mgd. The second phase was completed in FY07 providing full capacity of 5.0 mgd. The facility, along with other water production facilities, is projected to meet the JCSA's water needs through 2013. The cost of this project was approximately \$20 million. The JCSA intends to continue to use groundwater as an important/vital component in meeting future water demands. Additionally, the JCSA has completed two 1.25 million gallon water storage tanks that will enhance water flows and pressures during peak demands in the water system.

There are currently 74 pump stations in the JCSA sewer collection system. A significant number of the JCSA sanitary sewer pumping stations are beginning to show signs of deterioration due to their age. A systematic plan has been developed to analyze and determine what upgrade and rehabilitative measures are required to extend their life and meet the demands of increased usage. Existing pump stations and force mains may have to be upgraded or replaced to accommodate future planned developments.

During FY08, the JCSA completed the first phase of the rehabilitation of Powhatan Interceptor beginning at Lift Station 1-1 on Jamestown Road and following Powhatan Creek to Lift Station 1-2 located off of Route 5 near Jamestown High School. In addition, the JCSA made major improvements to the sewer interceptor in the head waters of Powhatan Creek upstream of Lift Station 1-5 and located between Ford's Colony and Windsor Forest.

In June 2007, the Board of Directors authorized the General Manager to sign a Consent Order with the DEQ to establish milestones for its efforts to reduce infiltration and inflow of extraneous water into the sewer system. This will be an expensive and long-term effort, which will compliment the JCSA's on-going efforts, to minimize sewer system overflows. The JCSA has completed the first phase of a sewer system evaluation and as of August 2009 has completed about 40% of a smoke testing program to identify weaknesses within its sewer collections system. Once this phase is completed the JCSA will begin a flow monitoring program to complete the evaluation. Once all are identified, sewer infrastructure deficiencies will be prioritized and addressed through construction projects.

JCSA has completed implementation of a Supervisory Control and Data Acquisition (SCADA) System, which will enable the JCSA to maintain and control water and wastewater facility operations during normal conditions and emergencies while compiling historical data. SCADA is a highly reliable system that takes advantage of modern computer technologies, which are highly efficient and cost effective. The capability and use of the SCADA system continues to grow in the JCSA efforts to more efficiently operate its water and sewer systems.

The JCSA recently began upgrading its Hansen Maintenance and Operations Software to better accommodate its infrastructure and customers. The software is state of the art and will allow the JCSA to integrate its SCADA and Geographic Information System into its work order system.

### **Accounting System and Budgetary Control**

The JCSA's accounting records are maintained on a full accrual basis incorporating the principles of enterprise fund accounting. Basically, this approach presents the statements on a basis, including a provision for depreciation, which is comparable to private industry.

In developing and evaluating the JCSA accounting system, consideration is given to the adequacy of internal accounting controls. The controls are designed to provide reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition; and, 2) the reliability of financial records for preparing the financial statements.

All internal control evaluations occur within the above framework using the concept of reasonable assurance and recognizing: 1) the cost of control should not exceed the benefits likely to be derived; and, 2) the evaluation of costs and benefits requires estimates and judgments by management.

We believe the JCSA's internal accounting controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

Budgetary control for the JCSA is maintained by the accounting office under the guidelines of the Treasurer. Encumbrance of estimated purchase amounts is an important part of the system.

### **Awards**

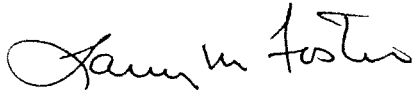
For the twenty-fourth year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to James City Service Authority, for its component unit financial report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, the JCSA must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.


## Acknowledgments

We wish to express our appreciation to the staff of Financial and Management Services who participated in the preparation of the report. Also, we would like to thank the members of the Board of Directors for their continued support in the planning and implementation of the financial affairs and setting policy for water and sewer development of the JCSA.

Sincerely,



Larry M. Foster  
General Manager



Robert H. Smith  
Assistant Manager/Treasurer